



Evaluation of Responses to the Request for Expressions of Interest and Indicative Offers for Santee Cooper

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Submitted to:

South Carolina Public
Service Authority Evaluation
Committee

Submitted by:

ICF

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I Executive Summary

The Public Service Authority Evaluation and Recommendation Committee (“the Committee”) is tasked with providing recommendations to the General Assembly regarding the future role and operations of Santee Cooper. While no sale has been authorized, the Committee has engaged ICF as an independent, third-party consultant to conduct an exploratory process on behalf of the Committee.

To implement this process, ICF utilized a “Request for Expressions of Interest (EOI) and Indicative Offers for the Public Service Authority of South Carolina (Santee Cooper)”. The main objective of the EOI process was to collect relevant information on potential sale, management contract, and other options for Santee Cooper to help the Committee formulate recommendations to the General Assembly, particularly related to the feasibility and advisability of a sale. This will be one of several inputs the Committee will consider.

The EOI was released in December 2018 and interested parties (also referred to as Participants) were asked to provide responses by January 2019. The proposals were provided to ICF in strict confidentiality and details of the individual submissions are not able to be discussed. However, this report attempts to provide essential information and findings based on the collective responses for the Committee to utilize in its formulation of a recommendation to the General Assembly.

I.1 Summary of Findings

This report provides a summary of key findings from ICF’s review of the responses, as highlighted below:

1. **Strong Market Interest** – The process revealed a robust level of interest in Santee Cooper. A total of 15 proposals were received from 10 parties,¹ including small and large electric utilities, large private investment firms, and industrial firms. Seven of the 15 proposals are for the potential acquisition of the full utility.² The remaining proposals constitute a variety of offer types ranging from long-term asset management agreements, to long-term power supply arrangements, to partial acquisitions. Most participants have outstanding technical and financial capabilities and several own independent power plants in the southeastern US. These firms have expressed interest in this opportunity, even with knowledge of the challenges unique to Santee Cooper; including the V.C. Summer 2 and 3 costs, ongoing litigation, and a complex wholesale contract.
2. **Diversity of Options** – Of the 15 proposals received, there is a fairly even distribution across types with 7 full purchase proposals and 8 other proposals. This demonstrates the range of creative alternatives available for Committee consideration and offers multiple pathways to achieve desired key outcomes including cost savings, customer rate relief, in-state economic development, and greater accountability. Even within the full purchase proposals, there is significant diversity of strategies and structures proposed for Santee Cooper.
3. **Beneficial Rates at Reasonable Prices** – The evaluated full purchase proposals contain many important features that support the feasibility of a potential sale of Santee Cooper including: (i) all have sufficient purchase prices to fully pay off or provide for defeasance of Santee Cooper’s debt, with the range being approximately \$7.9 billion to \$9.2 billion; (ii) all have prices

¹ Each party can represent individual or multiple companies participating together

² Full utility includes the utility with or without the hydroelectric generation assets, associated FERC licenses and related items.

near ICF's independent valuation range; (iii) all result in decreases in average customer electricity rates, ranging from 2% to 14% over 20 years relative to the business as usual (BAU) projection; this is in spite of three adopting the Investor Owned Utility (IOU) structure, which all else equal, can create upward price pressure relative to public power; and (iv) three of four evaluated full purchase proposals make no request to recover the costs of the abandoned Summer 2 and 3 nuclear power plants and provide 100% write down of these costs, which if executed as part of a sales agreement, would approximately offset the upward pressure of adopting an IOU structure, with the write off being permanent.

4. *Significant but Not Complete Progress towards Potential Implementation of a Sale* – The EOI process addresses feasibility of a sale by emphasizing the importance of several concerns of its largest customer, (Central), and others, notably lower rates and elimination of Summer 2 and 3 costs. All proposals indicate willingness to negotiate with Central. However, none fully resolve the two key implementation issues associated with the Central Agreement, namely the challenges with the termination and “opt-out” provisions. There was an unrealized possibility that these implementation challenges would be fully overcome in the EOI responses, had, for example, Central directly partnered with, or had actual or contingent terms or agreements in place with one or more of the Participants on one or both implementation issues. One full purchase proposal resolves all implementation issues related to the Central agreement, but this party is unable to meet the defeasance threshold criteria at this time. Additional negotiations with Central and/or other resolution of the implementation issues is required.
5. *Tradeoffs between Local Impacts and Customer Benefits will Exist* – In many qualitatively-assessed areas, stakeholders are likely to be largely unaffected by a utility transaction. For example, in the event of emergency situations, all responses demonstrated either a continuation of FEMA funding, or a strong emergency response plan with consumer protections in place. Likewise, all parties included safeguards for retirement planning. However, significant issues remain for the Committee's consideration, particularly related to local economic impacts. Some proposers intend to maintain a full headquarters in Moncks Corner essentially as-is, while others' plan for converting it to an operations center. However, in reviewing plans for utility headquarters, other local economic development, and generation retirement and replacement, it is important to consider possible trade-offs between these plans and projected customer electricity rates.

Considerable room for movement and refinement in many of these areas likely exists in later phases, particularly given areas where the amount or quality of information was not as readily available for this early stage indicative offer.

6. *Significant Generation Cost Savings Potential* – Significant cost savings appear to be available from changes to the supply resource mix if the Central Coordination Agreement implementation challenges can be resolved. These savings are primarily derived from changes in the generation capacity mix (more natural gas generation and less coal generation), and to a lesser extent, from cost savings from the more efficient operation of existing generation assets as well as other parts of Santee Cooper's business. The greatest rate reductions are associated with importing into the state power from existing natural gas fired and other power plants. While parties also included costs for transmitting the power long distance, as a technical matter, it is not currently clear whether the cost estimates are sufficient due to the complexity of transmission analysis. Additionally, generation strategies relying on remote out of state power supplies may involve trade-offs between customer rates and price versus jobs, tax revenues to state, and economic development. This will be an important area of further diligence and analysis going forward.

7. *Further Review and Due Diligence* – Based on the wide range of Participant strategies to generation retirements and new investments, transmission upgrades, distribution system hardening, day-to-day utility operations, the location of staff, in-state taxes and other payments, relationships to regulatory bodies, and several other issues, it will be important to review and vet the proposed approaches in more detail. Other areas of consideration and further diligence include legal requirements, governance changes, tax abatement, pension implications and requirements (and economic impacts related to state taxes), and regulatory implications including involvement of the Public Service Commission or related entities.

I.2 Summary of Scores for Full Acquisition Proposals

Full purchase proposals in compliance with the thresholds were scored by ICF according to ten evaluative criteria in two broad categories of qualitative and quantitative criteria. Based on the threshold screening and applied standards, four of the seven full purchase proposals were evaluated in detail. A summary of the results is shown in Exhibit 1.

Exhibit 1: Full Purchase Proposal Scoring Results

Criteria Category	Minimum Score Achieved	Maximum Score Achieved	Maximum Possible
Qualitative	22	35	48
Quantitative	20	34	52
Stage III	-1.5	2	NA
Participant Score Range	43	70	100 (+/-)

The range of points received for the four proposals evaluated was 43 to 70, out of a maximum of 100 points. While the range of results is significant, ICF places special emphasis on ordinal (i.e., relative) relationships, and somewhat less on cardinal relationships (the exact differences in scores). This is in part because of reasonable alternatives to the scoring methodology and significant uncertainties that require additional analysis that could not be conducted within the context of the EOI.³ Additionally, the offers are non-binding and indicative and hence cannot be guaranteed. The gap between 70 and 43 points may not be indicative of the substance and capabilities once these items are considered more thoroughly.

While there are differences in the scores, and reasonable people might focus on the top scorers only or initially, there are important differences between the proposals that cannot be discussed in this report without violating confidentiality. Furthermore, the four entities differ in their characteristics and approaches to Santee Cooper ownership and operations in ways that make selecting among the four difficult at this stage. Such selections require judgments that are best made with direct input from the ultimate decision makers at the State, as informed by additional stakeholders and due diligence. Lastly, the number of full purchase proposals meeting all the threshold criteria and representing primary proposals is not large (4) facilitating negotiations with the full set.

³ The issue is not one of having a few more days or even weeks, but in some cases, a process akin to a detailed integrated resource planning (IRP) analysis would be required to fully assess some of the issues and/or guarantees. Electricity transmission analysis and contracting often have extensive lead times for more definitive assessments, especially in cases where long distance transmission is sought, where there are local weaknesses in the grid, and when grid upgrades need to be investigated.

II Background

The Public Service Authority Evaluation and Recommendation Committee (“the Committee”) was established under Section 117.162 General Provisions. Under Section 117.162, and the Committee is tasked with providing a recommendation to the General Assembly regarding the future status of Santee Cooper through evaluating objectives including but not limited to:

1. Determine the manner in which the General Assembly may best protect ratepayers and taxpayers in regard to Santee Cooper;
2. Analyze whether selling Santee Cooper is in the best interests of South Carolina taxpayers, the ratepayers of Santee Cooper, and the ratepayers of the Electric Cooperatives of South Carolina;
3. Determine whether the assets of Santee Cooper should be considered for sale as a whole or in parts and which assets of Santee Cooper, if any, should be retained by the State;
4. Obtain a valuation of Santee Cooper and its assets;
5. Develop a transparent and public process to conduct hearings, receive bids from potential purchasers, and evaluate a p, potential sale of Santee Cooper;
6. Determine the future role of Santee Cooper, whether sold or retained by the State; and
7. Determine the manner in which the natural resources owned by Santee Cooper are protected or managed for public enjoyment and wildlife habitat.

No sale of the South Carolina Service Authority (hereinafter referred to as “Santee Cooper”) has been authorized. However, pursuant to items 3, 4, and 5, the Committee authorized a Request for Expressions of Interest and Indicative Offers (“EOI”) to solicit non-binding indicative offers from qualified entities for the full or partial purchase of the Santee Cooper, or for the future management and operations of Santee Cooper. The intent of this process is to solicit proposals and market information to help inform the Committee’s assessment of the advisability and feasibility of a potential sale and its final recommendations to the General Assembly on this topic. The EOI provided detailed instructions and information regarding the Committee’s requirements. Responses to the EOI will be one of several inputs the Committee will consider.

The Committee has engaged ICF as an independent, third-party consultant to conduct the EOI process on behalf of the Committee. ICF has conducted this work on a time and materials basis. ICF’s fees are not contingent on the outcome of this process.

This report provides a summary assessment of the proposals received in response to the EOI. For purposes of this report, indicative offers received for the purchase of the full electric and water utility businesses, were reviewed and evaluated in more detail than other types of offers. However, all responses are described herein. To maintain confidentiality of the responses, details of any individual response are not discussed.

III Exploratory Sales Process

ICF met with the Committee to discuss the process and establish the criteria for evaluation on November 13, 2018. ICF launched the exploratory process on December 07, 2018 with a document describing the requirements and evaluation criteria (“Request for Expressions of Interest and Indicative Offers: South Carolina Public Service Authority (Santee Cooper) Electric and Water Utility Systems”).

The process sought indicative offers from any parties interested in the potential purchase of Santee Cooper, in whole or in part, or for the future management and operations of Santee Cooper. The EOI request was provided to all parties who expressed interest in participating. The EOI request clearly encouraged participation in this process and indicated the potential for any future sales process to be limited to or gives preference to those parties participating in this EOI process. The process was intended to be more exhaustive than a typical process soliciting indicative proposals and the Committee sought detailed proposals and indicative offers which would reasonably represent the willingness of Participants to take on the forward operations of Santee Cooper either through purchase or management and operations or other types of proposals.⁴

III.1 Preliminary Assessment for Potential Participation Interest

The EOI process was open to all parties expressing interest in participating. Interest was identified by ICF through outreach to multiple parties, including parties who had previously reached out to the State, Santee Cooper, the Central Electric Coordinating Cooperative, or to parties directly reaching out to ICF. The outreach also included advisors to parties potentially interested in process. For all parties expressing interest, ICF held teleconference discussions to describe the intended exploratory process and timeline, to understand the companies’ interests, and to review high level qualifications.

Significant Interest Expressed

20 companies representing 17 parties expressed interest in participating in the EOI for Santee Cooper. The companies not only represented a broad set of interests but identified multiple paths forward for consideration that would be relevant to the State.

Outreach occurred with 34 companies, of which 12 were considered to be advisory firms. Responses indicating positive initial interest were received from all but one of these companies. These companies represented 17 potential parties with interest all of whom received the EOI.⁵

An additional party reached out to ICF after the response due date to express interest in participation. This party has provided a letter of interest and is seeking to be included in any future processes.

⁴ While any final offers from Participants would be subject to further diligence and review, ICF does not believe that such additional access and analysis by Participants would greatly modify their intentions and overall approaches to the utility, though the price and rate offers, and other details would be almost certainly be affected.

⁵ Several companies intended to participate jointly. A “party” is representative of singular interest, whether joint or individual, in Santee Cooper.

III.2 Process Timeline

ICF engaged with stakeholders including the Committee, Committee Staff, Santee Cooper, Central, customers and their representatives, interested parties, and others over the course of October and November. ICF held weekly calls throughout its engagement with committee staff. ICF was supported extensively by Santee Cooper and its advisors throughout the process, with strong cooperation.

The timeline for the EOI process, excluding review of responses, was slightly over 5 weeks as shown in Exhibit 2. This timeline was largely dictated by the Committee's desire to consider responses and other information in a timely manner to allow for a recommendation to the General Assembly within the 2019 legislative session which ends in May 2019.

Exhibit 2: EOI Timeline

Expected Date	Item
November 13, 2018	Committee Meeting Setting Threshold and Evaluative Criteria
December 07, 2018	EOI Process Launch and Data Room Opening
December 13, 2018	Technical Conference
December 17, 2018	Webinar on ICF Illustrative Rate Estimation Tool
December 20, 2018	Notice of Intent Due
January 07, 2019	Last Date to Submit Data Requests and Questions
January 14, 2019	EOI Responses Due
February 01, 2019	ICF Report Due

The EOI process was designed to be fair and transparent to all participants. All participants had opportunities to ask questions regarding Santee Cooper and the EOI itself during the Technical Conference on December 13th and the period through January 7th. A total of 61 people from the interested parties (not including staff from Santee Cooper and ICF) attended the technical conference held at the Charleston Convention Center either in person or online. Further, a data room containing significant information regarding Santee Cooper was available to all participants completing a non-disclosure agreement with Santee Cooper.⁶ Technical administration of the data room was provided by Santee Cooper or its agents, however, to ensure unbiasedness in responding to questions, all questions were received by ICF and submitted anonymously to Santee Cooper. The specific data requests of individual participants were kept confidential to that Participant, however, responses to data requests were posted within the data room for access to all participants. The combination of the data room, Q&A period and technical conference offered participants sufficient time to perform due diligence regarding Santee Cooper to be able to provide an informed indicative offer. Overall, 358 questions were submitted to Santee Cooper, and responses supplied prior to the due date for responses.

III.3 Relevant Information for the Committee Deliberations

Prior to issuing the EOI request, ICF worked with the Committee to understand key criteria which were deemed important in their deliberations regarding a possible sale or restructuring of Santee Cooper.

⁶ The data room contained approximately 5,000 documents.

While the Committee was interested in all potential solutions that might be offered, it was determined that the initial focus should be on solutions involving the sale of the full utility. As such, the EOI was designed to accept all responses, but the initial evaluation of responses would be focused on full purchase proposals.

The EOI was designed with the Committee criteria clearly identified for all participants. Criteria were provided only for full purchase proposals.

The criteria analysis was split into two main stages. First, the Threshold Criteria were considered (see Exhibit 3). Those responses meeting the Threshold Criteria then moved to the second stage, review of Evaluative Criteria. The Threshold Criteria were required to be satisfied for the purposes of being fully evaluated as full purchase proposal. A third optional stage was available to the Evaluation Team to address issues identified during the evaluation process which were not foreseen in the Evaluative Criteria. This third stage would only be invoked in the event that the evaluation protocols were considered to not have sufficiently foreseen substantive factors. Any use of the third stage would require consensus opinion of the Evaluation Team and was further required to be fully documented.

Exhibit 3: EOI Threshold Criteria for Full Purchase Proposals

Threshold Item	Requirement
Full Purchase Proposal Confirmation	Provide indication that the proposal is submitted for evaluation as a “full purchase” alternative; provide indication that response was prepared in compliance with EOI requirements
Experience	Minimum experience of 5 years
Financial Capability	Investment grade credit rating or similar; demonstrate financial strength to support full defeasance of the Santee Cooper outstanding debt
Full Defeasance of Santee Cooper Debt	Clearly demonstrate full defeasance, payment, or assumption of debt
Acknowledgment of Central Electric Coordination Agreement	Acknowledge Santee Cooper / Central Electric Cooperative Coordination and importance of rate outcomes to Central
Affirmation of Status Quo Treatment for Lakes and Hydroelectric Assets	All proposals are required to explain how hydro asset status quo is intended to be achieved
Completeness	Complete responses to the required information contained within the EOI

The Evaluative Criteria were used to score responses within each relevant category. The Committee established a set of Evaluative Criteria on November 13, 2018 in a closed session with ICF and presented these in a public session on the same date. Weights for this process were established, which resulted in a maximum possible score of 100 points for a full purchase response. The Evaluative Criteria included qualitative elements, accounting for 48 maximum possible points, and quantitative elements accounting for 52 maximum possible points (see Exhibit 4).

Exhibit 4: EOI Evaluative Criteria for Full Purchase

Category	Weight
Experience and Customer Commitment	5
Financial Strength	5
Maintenance of Local Operations	5
Transition Plan	10
Employee Pension Plan Maintenance	3
Economic Development and Benefits to South Carolina	5
Generation Portfolio Diversification	5
Feasibility	5
FEMA Assistance Qualification	5
Price	20
Rates	32
Total	100

In order to have a comparable set of responses to evaluate, ICF provided select information to the Participants:

- ▶ *Illustrative Rate Models* -- Relevant to the evaluation of the Rate criteria, ICF provided participants with two simplified MS Excel based working models projecting Santee Cooper forward looking rates. The first provides an assessment of the forward wholesale and customer rates based on a Business as Usual (BAU) case using the most current ten year forward projections of Santee Cooper and further extrapolating these projections to provide a long-term annual BAU rate assessment⁷. This model assumed that the debt obligations associated with Summer 2 and 3 would be passed onto consumers in full.

The second model provides a rate outlook assuming the same conditions as under BAU were to prevail in the market, but in this case, assuming the utility structure would be converted to an IOU structure. In the second model, the Regulatory asset associated with the Summer 2 and 3 abandoned nuclear power plant is maintained, as well as functionality to facilitate the write down of the assets to achieve average BAU customer rates. Thus, the model is designed to facilitate, via write down, an offset to the upward pressure of adopting an IOU structure and emphasizes the

⁷ Notwithstanding data from Santee Cooper, this is an ICF projection.

importance of this issue. Participants were not required to propose any write-down of the reg asset, but all proposals adopting the IOU structure assumed full write down. Both models assume market conditions (e.g. delivered fuel costs) and generation mix as used by Santee Cooper for the first 10 years, extrapolated forward to provide a longer-term assessment. Participants were able to participate in a webinar in which ICF presented these models and described their relevance to the evaluation.

- ▶ *Transfer Date and Defeasance Assumptions* -- Relevant to the price criteria, all Participants were asked to assume a transfer date of December 31, 2019. Participants were also provided with the value to assume for remaining debt in order to meet full defeasance as of that date. The full cost was estimated at \$7.634 billion for close at the end of 2019 based on market conditions in December 2018 for long-term tax-exempt, taxable and mini-bonds, plus approximately \$0.3 billion in short-term debt, for a total of approximately \$7.9 billion.

The methodology for evaluation of all criteria and the persons on the Evaluation Team reviewing individual criteria were established prior to receipt of the proposals to ensure a fair and consistent evaluation of proposals. Protocols were also followed for seeking clarifications from proposal sponsors, and for ensuring that confidentiality of the responses was maintained. The same standards were consistently applied to each proposal reviewed.

III.4 Summary of Responses

ICF received a total of 15 proposals (or offers) from 10 distinct Participants spanning multiple offer types, as shown in Exhibit 5 below.

Exhibit 5: Full Purchase Proposal Scoring Results⁸

Party	Full Purchase ^{a, b}	Partial Purchase	Management and Operations / Hybrid	Purchase Power / Requirements	Total
A	1	1			2
B			1		1
C	1				1
D			1		1
E				1	1
F	3				3
G	1		1		2
H		1		1	2
I			1		1
J ^c					0
K	1				1
Total	7	2	4	2	15

a. One of the full acquisition proposals did not include purchase of the hydroelectric and lake assets or the water utility.

b. The party submitting multiple full acquisition proposals included a primary offer and an alternate structure assuming a partnership structure. However, sufficient detail was not included to evaluate the alternate option.

c. Party J provided a notice of intent to respond, however, did not ultimately provide a response.

⁸ The EOI was provided to 17 parties initially. 11 of the parties submitted notice of intent to respond. Responses were received from 10 parties.

IV Full Purchase Response Evaluation

Five primary responses and two secondary responses with non-binding indicative offers for full purchase of Santee Cooper were received from five parties. All seven were evaluated in the first stage – i.e., the threshold review.

IV.1 Threshold Review

Compliance with the threshold requirements allowed responses to be reviewed and scored against the evaluative criteria. Non-compliance did not mean that responses were outright rejected from the process; rather, such responses were unable to be scored on an equivalent basis and were excluded from scoring. After reviewing each response to ensure they met these minimum standards, it was determined that two of the responses did not satisfy the threshold requirements.⁹ The first reflected an “Alternate Ownership Structure” to the primary proposal which was submitted; however, there was insufficient information and the proposal did not meet the completeness standard. The second did not comply with the threshold requirement for defeasance. As a result, these proposals were not qualified for the full evaluation. The remaining five responses were found compliant with the threshold criteria. One of the remaining five was considered a secondary offer and was not included in the detailed scoring for this reason. A summary of the non-compliant and secondary offers can be found at the end of this section.

Details on the results of the threshold criteria review for the four compliant / primary proposals moving to the full evaluation stage are provided below. Unless otherwise noted, discussion of full purchase proposals is limited to these four proposals.

Overview of Non-Compliant Proposals

While two proposals did not meet the threshold evaluation and qualify for full review, each had interesting aspects.

One of the two provided for full purchase through separation of the assets across two separate parties, with one acquiring generation and the other acquiring transmission. The proposal, due in part to cash funding made available through the asset separation offered increases on the order of \$250 million per year over and above the base proposal offered. This in part came from the ability to achieve lower cost debt for generation alternatives and from increased investment in and payoff of grid modernization. Investment planning in each area would be achieved through joint planning and asset separation. The proposal was too preliminary in nature to be considered for evaluation but may offer benefits unavailable through other proposals. However, it does offer significant challenges in implementation in requiring full commitment on both parties.

The second was unique in offering an implementation solution to the Central coordinating agreement. However, this proposal did not fully address the outstanding debt of Santee Cooper.

⁹ One of the two was a secondary response.

Overview of Secondary Proposals

One party provided two alternate structures that would achieve full divestiture of Santee Cooper along with their primary proposal. The first option was found to be non-compliant and is discussed above. The third alternative focused on “Generation Modernization”. As a secondary proposal, the Generation Modernization was not scored, however, the general premise was based on the belief that additional benefits to improve the generation fleet exist. For example, this proposal considered retiring the coal-fired Winyah facility and replacing it with an efficient new-build natural gas-fired combined cycle facility and increased purchased solar capacity, which would provide the State more reliable and cleaner sources of power. While this proposal was not assessed in the scoring, the concepts presented are similar to other proposals and may be more appropriate to consider as an extension to or refinement of the primary proposal than a separate offering. This proposal would provide benefits to the Generation Portfolio diversity category; however, it would have a less significant rate reduction relative to the BAU.

Factor 1: Full Purchase Proposal Confirmation

Of the four purchase proposals, three included the acquisition of the hydro asset while one did not envision owning the hydroelectric assets or the water utility at this time but indicated that subject to further due diligence, they may be open to acquiring those assets as well.

Factor 2: Experience

The four proposals adequately demonstrated a management structure with experience in assuring safety, reliability, economic operations, and customer satisfaction. Three of the four parties are actively involved in one or more aspect of the electricity market (generation, transmission and distribution industry) with deep expertise in their respective industry. The fourth party has assembled a highly capable team that has prior utility experience.

Factor 3: Financial Capability

The four proposals were determined to include parties in good financial standing. Two out of the four parties have investment grade rating of A-.¹⁰ One of the parties provided a “confidence letter” and noted the intention to seek a credit rating of the new debt issued before submitting a final bid. The last party has partnered with a notable infrastructure investment fund manager who has significant access to capital. Additionally, the parties demonstrated adequate financial assets or market access to provide for full defeasance of the Santee Cooper outstanding debt.

Factor 4: Full Defeasance of Santee Cooper

This standard required the full defeasance of Santee Cooper debt. Three of the four proposals provided for full defeasance of the existing Santee Cooper debt while one party fully assumed all debt.

¹⁰ S&P Rating

Factor 5: Acknowledgment of Central Electric Cooperative Coordination Agreement

Participants were asked to provide an acknowledgement of the terms of the existing coordination agreement between Santee Cooper and Central as well as the importance of the rate outcome to Central. The four proposals provided such acknowledgements either in the body of their proposal or in their signed Certification forms.

Factor 6: Affirmation of Status Quo Treatment for Lakes and Hydroelectric Assets

The Committee was unambiguous in its requirement that all proposals must maintain the status quo of the hydroelectric generation and associated assets. All four proposals noted no change in the status quo of the hydroelectric generation and associated assets. Three of the four that cleared the threshold requirements included the direct acquisition of the hydroelectric facilities and associated assets. The remaining party's response indicated the intent to leave ownership and control of such assets with the State; however, they further indicated that with further opportunity for due diligence, they may be open to acquiring the hydroelectric and associated assets.

Factor 7: Completeness

The four responses were compliant with the information indicated as required to be included as per the EOI. Specifically, all sections identified as required were included. Additionally, these parties provided signed Notice of Intent to participate prior to submitting their responses, and Certification Forms were provided with their responses.

IV.2 Key Findings of the Evaluative Review

As discussed earlier, of the seven full purchase proposals, five met with the threshold requirements in full. One of the five was a secondary proposal and was not considered for evaluation as such. The remaining four were then considered in the next stage, with Evaluative criteria assessment. These four proposals incorporated a range of approaches and participant qualifications, with many positive features that could support a sale. However, key implementation challenges remain to be addressed if the process were to move forward.

IV.2.1 Strong and Diverse Group of Buyers Submitted Diverse Proposals

The four full purchase proposers that passed threshold criteria consist of US electric utility companies and non-utility companies including leading financial entities involved in the electric power space. Some entities have significant presence and a long history within the state.

Two of the four responses were from major utility companies with significant operations in the Southeast. One proposal represented a consortium of parties including a major financial investor in power markets, an investment company with utility ownership and utility operational experience, a utility management company, and an infrastructure investment company; each party providing substantial experience and expertise in support of its response. The final Participant submitting a compliant response includes a major energy infrastructure investment company and an institutional investor. This party provides a strong management team with highly relevant experience at a sizable public utility.

Of these four respondents, three proposed a structure that would be to convert Santee Cooper to an IOU and subject the purchased Santee Cooper to rate of return regulation by the South Carolina Public Service Commission (PSC) and the Federal Energy Regulatory Commission (FERC). One proposal

maintained public ownership of the utility, but the details of the structure cannot be fully discussed due to confidentiality issues.

The four Participants are all qualified, capable potential buyers. Were the State of South Carolina to negotiate with these entities, it would find four counterparties with the financial, technical, and managerial capability to purchase Santee Cooper and provide reliable, safe, and economic electric and water services.

The Participants expressed interest in acquisition of the full utility, though certain parties opted to include the hydroelectric assets and water utility within the context of their response while others excluded these assets, as was allowed in EOI procedures. Even the party excluding hydro assets or the water utility from their EOI responses indicated that they would consider making an alternative offer that included these assets, subject to further due diligence in one instance.

While all proposals contained strong offers, there was a notable range in the amount of detail provided. Certain proposals were twice to three times as long and detailed as others.

One area of significant concern was related to the Santee Cooper transmission system, where a diverse set of views was provided. This issue figures prominently because the entity with the lowest rates is relying the most on long distance electricity transmission to import power from existing power plants located out of state. This entity has transmission cost estimates. However, this strategy creates the largest transmission cost uncertainty. Within the time allocated to evaluate EOI responses and based upon wide differences in the level of respondent detail on transmission upgrades required to accommodate their generation investment plans, ICF was not able to definitively determine the optimal amount of transmission infrastructure investment. Differences among proposals on this investment in items such as transmission debottlenecking, affected system impacts, transmission service costs, and losses, exist and are compounded by differences in the costs of greater storm resiliency, and greater cyber security. One estimate was as high as approximately \$1.5 billion over a long period. Hence, when comparing proposals, a proposal with a higher EOI purchase price or lower customer rates may not ultimately be the most desirable economic offer (if that highest scoring offer did not include transmission investments on par with other proposals). Reconciling necessary transmission investment levels can be addressed clearly and efficiently during any subsequent negotiations the State have with these parties.

IV.2.2 Positive Economics of Proposed Acquisitions Meet or Exceed Goals

Based on review of the four compliant full purchase proposals, many attractive features that could facilitate a possible sale were identified. These features include:

Prices at or above full defeasance of debt

The four compliant offers have estimated purchase prices at or above full costs of debt defeasance¹¹; as noted this was one of the threshold criteria for full evaluation.

Prices very close to or within ICF's independent valuation range

Prices based on the responses received range from \$7.9 to \$9.2 billion. ICF independently estimates the value of Santee Cooper at \$8.1 to \$10.1 billion using widely accepted valuation methodologies

¹¹ One of the four full acquisition bids does not fully pay off the debt, but rather assumes it.

and assuming a private investor owned utility is the new owner¹². Thus, the estimated prices received are close to the low end of ICF's range of independently estimated value of Santee Cooper. Specifically, estimated prices range from 3% below to 14% above the low end of the range of ICF's independent estimate of the value of Santee Cooper.¹³

The finding that estimated prices are toward the low end of ICF's range of value may be a consequence of the EOI criteria emphasizing more the importance of low rates for customers than the offer price received by the State. This emphasis is achieved through weighting customer electricity rate impacts at 32 points and offer price at 20 points. With the 60% greater emphasis on lowering rates versus increasing offer price, Participants may have considered the direct financial trade-offs between lower customer rates and a higher purchase price for the utility and opted to lower customer rates based on the EOI point structure. More specifically, some of the Participants may have capped their purchase price at the defeasance threshold (i.e., at the minimum allowed price), and devoted the remaining economic value to lowering rates as a strategic decision to obtain more points in this EOI review.

In general, Participants expressed flexibility in exploring these price/rate trade-offs with the State which is indicative that there may be room to negotiate increases in offer prices were the State to proceed to a sales process. It is also important to note that the responses, including the price offers, reflect indicative and non-binding offers, and thus it is expected that there will be some movement in a final offer.

Projected customer electricity rates are all below the Business as Usual (BAU) projection of ICF

Among the four responses evaluated, when estimated over 20 years, the levelized average Santee Cooper customer rate decrease projected is 2% to 14% lower than in the BAU case.¹⁴ This reduction averages approximately 6% or \$5/MWh, i.e. decreases rates from \$84/MWh to \$79/MWh on average across the four proposals. Every \$1/MWh approximately decreases customer costs by \$25 million per year.

Before elaborating on customer rate reductions, we provide some background discussion. First, in this report, unless otherwise stated, the average customer rates we refer to are wholesale rates. These are different from end-user or retail rates, i.e., residential, commercial and industrial customer rates. End-user rates are higher as they reflect wholesale costs plus distribution and other charges. Santee Cooper primarily, though not exclusively, sells at wholesale and hence the focus on wholesale averages.

Second, Santee Cooper does not pay taxes and relies on debt. In comparison, an IOU pays taxes and relies on higher cost capital including equity. Thus, one would expect that if Santee Cooper became an IOU, all else equal, its rates would increase. Therefore, it is important to explain why this does not happen in these projections.

¹² ICF's independent estimation of the value of Santee Cooper reflects a number of assumptions ICF believes are appropriate for the current situation, including limitations on the average long-term electricity rate that can be charged customers. These limitations reflect ICF's assessment of the impact of the Central Coordination Agreement and expected regulatory treatment of Santee Cooper's Regulatory asset associated with Summer 2 and 3.

¹³ If ICF is required to adopt a single point estimate of the value of Santee Cooper, which ICF does not recommend (ICF prefers a range for its independent estimate of value), the estimate would be \$9.1 billion which is the midpoint of the \$8.1 billion and \$10.1 billion range.

¹⁴ On a levelized basis – i.e. on an annuitized basis.

Third, IOU rates are proportional to the net amount of invested capital. The relationship is somewhat complex because it involves several components all affected by the amount of invested capital, but the key is that the relationship is proportional.

Fourth, approximately 40% of the net invested capital of Santee Cooper (invested capital less accumulated depreciation including regulatory assets) is associated with the Summer 2 and 3 abandoned nuclear power plant project. As noted, Santee Cooper categorizes this amount as a regulatory asset ("reg asset").¹⁵

Lastly, we use 20-year levelized averages or annuities rather than simple averages. This is done to capture the time value of money and gives more emphasis to near terms rates.

With this background, we now explain why the average rates decrease even though most proposals convert Santee Cooper from public power to an IOU. Adopting the IOU rate structure, with no other change (which no one proposes but is shown for analytic clarity), raises rates \$13/MWh, from \$84/MWh in the BAU case to \$97/MWh for an IOU (see Exhibit 6). There are two reasons proposed rates end up below the BAU case. First, the 100% write-off of the reg asset lower average rates by \$12/MWh, from \$97/MWh to \$85/MWh. Second, there are other cost reductions that lower rates by \$6/MWh, from \$85/MWh to \$79/MWh. Thus, 72% of the total average decrease is due to the write off, and 28% is due to other cost reductions. Another perspective on the rate reductions is starting not from the BAU case, but the BAU conversion to IOU, and this increases the rate reduction to \$18/MWh, i.e., from \$97/MWh to \$79/MWh.

Exhibit 6: Illustrative View of Potential Rate Scenarios

Rate Scenarios	20 yr. Annuitized rate (\$/MWh)
100% Reg Asset Recovery Plus Investor Owned Utility Regulatory Structure	97
0% Reg Asset Recovery Plus IOU Regulatory Structure	85
BAU	84
Four Evaluated Proposals ¹	79
1. Value shown reflects simple average of the 20-year levelized rate of all four proposals	

The cost reductions (28%) largely reflect cost savings identified in most proposals achieved through significant changes to generation sourcing. The savings are not larger because the reductions in costs require capital investment. Proposals changed the generation mix from the BAU case to contain less coal and more natural gas and/or renewable generation (mostly solar) with the construction of new power plants or accessing power from existing power plants. The proposals differ regarding the amount of the savings versus the BAU case because they had different sourcing strategies, have different underlying assumptions or both. Also, in some cases, the proposals either do not have detailed analysis (e.g., detailed transmission analysis) or call for the opportunity for more due diligence and study with Integrated Resource Planning (IRP) or other processes. ICF believes, based on a high-

¹⁵ Reg asset is the regulatory asset that equals most of the capital costs associated with Summer 2 and 3 in Santee Cooper's balance sheet.

level analysis, that Participants' customer rate decreases appear reasonable given their assumptions, but additional detailed study should be conducted in the future to confirm assumptions, especially regarding transmission.

The strategy with the greatest generation cost reductions achieves this by importing power from out-of-state existing power plants. Long distance transmission increases transmission costs and the party has estimates of these costs. However, ICF was not able to determine whether these costs are sufficient. In addition, transmission issues figure prominently in other issues such as the implications of sales of transmission alone. The problems affecting the estimation of transmission costs, and assessments of lead times for service include: (i) the need to analyze each source and sink combination over different time periods for definitive resolution, (ii) the need to analyze stress to grid elements under normal and contingency conditions, (iii) the need to work with other transmission systems given the likelihood of inadvertent power flows over multiple power systems (referred to as affected systems) increasing the scope of the analysis, (iv) the relative lack of transparency regarding transmission conditions in South Carolina compared to states participating in organized power markets also referred to as Regional Transmission Organization (RTO) markets, (v) restrictions on access to the data designated as Critical Energy Infrastructure Information (CEII), (vi) complexity of power flow modeling, (vii) need to consider a range of different upgrades to determine definitive solutions to the need for upgrades, (viii) the need to distinguish between costs that should be allocated to individual transmission customers versus being allocated to all customers, (ix) the greater lead times and challenges for siting and permitting transmission compared to generation, and (x) the greater likelihood regions have transmission bottlenecks and shortages than generation shortages; most regions have excess generation unless there is a bottleneck.

ICF allowed parties to have their own BAU and proposal assumptions in order to obtain the full range of views on market conditions and potential system improvements and approaches. It may also be useful to have a consistent set of assumptions and analysis of rate reduction results in a subsequent phase.

Majority of proposals assume no cost recovery for the abandoned Summer 2 and 3 nuclear power plants

Three of the four proposals assumed no recovery of the reg asset of Santee Cooper (i.e., the reg asset would not affect the level of net investment on which customer rates were calculated).¹⁶ Another proposal assumed full recovery of the Summer 2 and 3 associated debt costs.

This is in stark contrast to the Dominion acquisition of SCEG, where 58% of the Summer 2 and 3 capital costs were included in the forward rate recovery.¹⁷

Treatment of the reg asset via write-off is important for multiple reasons. First, the write-off facilitates implementation of a sale because it removes a source of dispute between parties to the Central Coordination Agreement. Second, the full write-down is an example of the EOI process addressing the key concerns of Central (and others). Third, write-off lowers the rate base (net asset levels) and lowers cost of service (IOU) electricity rates, all else equal. Therefore, as discussed above, this compensates for the upward rate pressure on electricity rates that would otherwise arise due to the conversion of Santee Cooper from being a non-tax paying entity with almost all external capital

¹⁶ Reg asset is the regulatory asset that equals most of the capital costs associated with Summer 2 and 3 in Santee Cooper's balance sheet.

¹⁷ Treatment of Summer 2 and 3 capital costs is a complex topic, and the 58% should be treated as an approximate estimate. It is shown in part to emphasize the decision to fully exclude these costs.

sourced via low cost debt to a tax paying entity with a combination of debt and equity. Fourth, once the reg asset is written down, the impact on the rates of the write-down cannot be undone. Thus, once implemented, a write-down is a verifiable, guaranteed and permanent source of rate reduction, all else equal. In contrast, operating cost savings in general are not guaranteed, and are subject to market conditions, cost uncertainties, etc.

End user rates¹⁸

Proposals did not suggest changes in the relationship between average end user rates (e.g. residential, commercial, and industrial end user rates) and average wholesale rates in any material respect. Importantly, Participants did not propose lowering the difference between end user rates and wholesale average costs, e.g. by decreasing or changing the allocation of distribution and other charges that are reflected in end user rates and not wholesale average rates. Some Participants recommended “Cost of Service” studies¹⁹ to review the allocation of costs to end user classes.

IV.2.3 Significant Tradeoffs Regarding Qualitatively Reviewed Factors Identified

Through the EOI process, significant information became available regarding implications for a potential sale. As discussed, the interested parties were found to be well experienced and financially capable, indicating a strong market for sale exists. All parties demonstrated either a continuation of FEMA funding, or a strong emergency response plan with consumer protections in place. Regarding retirement planning for employees, all parties presented a reasonable approach. The responses presented diverse transition plans, but each had positive aspects and left open the possibility for improvement, particularly should a later phase go forward.

However, significant issues remain for the state’s consideration, particularly related to the trade-offs between local impacts including job impact, and the customer rates. The responses provided for two general approaches to local operations: maintaining status quo or converting to an operations like center. While these approaches result in significant differences in job retention, those with job loss were possibly due to efficiencies that were realized through rate reductions. All parties presented reasonable consideration of economic development for the State; however, the indirect implications of the proposals are difficult to fully recognize absent a more detailed socio-impact study. Similarly, most parties recognize implicitly that there are trade-offs between significant generation diversification and modernization and rates. Greater detail in information related to job impact and impact to Moncks Corner, and economic development are below.

Job Impacts

Across the four proposals, there were material differences in job impacts for the State. The job impacts differed along two dimensions: (i) whether Santee Cooper would be merged into larger utility operations and hence have a more significant loss of jobs due to reduction in head count for duplicative positions, and (ii) the generation sourcing and infrastructure plans of parties.

The projected job losses among existing Santee Cooper staff exceeded 500 among the proposals, before accounting for in-state job creation from new generation (to replace retiring

¹⁸ In the report, unless otherwise indicated, the reported rate metric is average wholesale costs.

¹⁹ Cost of Service studies are used in the industry to allocate costs between classes of customers based on cost causation principles – i.e. allocation is in proportion to the costs imposed on the system.

assets) and upgraded transmission and distribution infrastructure, while other proposals contained essentially zero short-run job losses. Where new in-state generation was in Participants' plans, it was focused on natural gas and solar resources. Such generation development would create both temporary engineering, construction, and other positions and permanent operations, maintenance, and fuel supply positions. During the maximum construction period, a total of more than 600 new jobs were anticipated in one proposal. While this is significant construction-related employment, the loss of ongoing utility jobs due to operational consolidation and the expected closure of Santee Cooper coal facilities outnumber the potential job creation in multiple cases. In all cases where operational consolidation was planned, however, Participants recognized the potential for Santee Cooper staff to seek positions in other areas of their organizations and included well-developed retraining, severance, and/or other programs to assist displaced workers.

It is critical, when reviewing planned employment changes, to consider potential trade-offs between (i) fewer employees and (ii) greater savings to ratepayers and/or higher tax receipts to state and local governments. As far as compensation packages for Santee Cooper employees, most responses indicated that decreases in salary should not occur, at least in the short run, for Santee Cooper employees retained post-acquisition. Changes to other aspects of compensation are expected to occur to varying degrees across the proposals.

Moncks Corner Impacts

In addition to the aggregate job implications described immediately above, there are implications from Participants' differing plans for utility functions to retain at or move from Moncks Corner.

For example, some Participants plan to keep essentially all current headquarters activities (senior management and operations) in Moncks Corner, while other Participants plan to utilize Moncks Corner as a regional operations center.

Other Economic Development Impacts

All parties emphasized maintaining economic development opportunities for the State. However, based on information available in the indicative offers and time limitations, it was not possible to make a full comparative assessment of socio-economic impacts. A fuller review would include review and confirmation of the impacts of elements such as planned payments to the State in lieu of taxes (or directly as property taxes); broader community and economic development programs including loans and grants; payroll taxes; sales taxes; state income taxes and franchise fees (versus Santee Cooper's 1% payment of operating revenues equivalent to nearly \$20 million annually); use of local suppliers and labor; consumer incentive and bill reduction programs; pension differences in required rates of return and retirement benefit funding; job impacts; and other economic factors including support for industry. Proposals offering an IOU structure may provide significant benefits to the State through payments of taxes which would not be made by public entities. It would be important to consider these factors in more detail in any secondary processes.

IV.2.4 Key Implementation Challenges Advanced but Not Fully Overcome

All four compliant proposals identified requirements for legislative and regulatory action and other steps to implement their proposed transactions. For example, they all required legislative action to allow for a sale and implementation of cost of service regulation or other electricity price setting structures. This is reasonable given existing law prohibiting sale.

One result of the EOI is that significant progress was made on addressing implementation issues related to the long-term Coordination Agreement between Santee Cooper and Central Cooperative, notably through addressing rates. However, the four proposals failed to fully address implementation issues related to the Central Coordination Agreement. These implementation issues are important because approximately 60% of Santee Cooper's sales are made at wholesale under the very long-term contract with Central Cooperative.²⁰ Upon change of control, Central has 90 days to either terminate or accept the contract.²¹ In addition, Central can reject major long term changes in generation sourcing and essentially remove a commensurate amount of load (referred to as opt-out).²² All parties indicated that continuation (i.e. non-termination) of the contract and elimination of the "opt-out provisions" or an effectively similar restructuring of the relationship was critical to implementation and a condition precedent for their proposal. While the proposals identified the need for certain revisions to the Central Coordination Agreement and Central acceptance of their plans, indication of Central's acceptance was not clearly provided. Additional negotiations with central or other resolution of the implementation issues is required.

A more complete discussion of this implementation challenge is not possible due to confidentiality concerns; however, issues with the Central Coordination Agreement (i.e., termination and "opt-out") remain the largest implementation challenges in the event that the State decided to proceed to a sale.

One proposal provided a solution to the implementation issues associated with the Central contract, but the proposing party indicated it could not at this time meet the threshold defeasance requirement - i.e. the offer price was significantly below \$7.9 billion. Hence, it was not fully analyzed as part of the proposal evaluation process.

²⁰ Most US utility sales are made to end users in legally enforceable franchise territories where the utility is the sole authorized selling entity. Santee Cooper is therefore not typical since most of its sales are under wholesale contracts not directly involving end users.

²¹ There are related contract provisions associated with this change in control contract provision including provisions related to purchase of Santee Cooper assets by Central. There are implementation issues related to exercise of this provision. ICF cannot express legal opinions on contractual terms and conditions.

²² ICF's projection of BAU costs and rates is ICF's but is based in part on budget projections of Santee Cooper. ICF's contract did not include in its scope analysis of a continuation of Santee Cooper as a stand-alone entity. It is our understanding that such analysis is likely. This is mentioned because the opt-out problem in the Central Coordination Agreement exists for Santee Cooper and is likely to be one of the key reasons why the opportunities for significant generation cost savings exist. However, no solution to the opt-out problem exists at this time.

IV.3 Qualitative Criteria

The evaluation process called for a scoring of all qualified proposals across a set of qualitative (and quantitative) criteria. A summary of the resulting scores in the qualitative categories is presented in Exhibit 7 and further detail is provided in the discussion below.

Exhibit 7: Qualitative Criteria Scoring

Evaluative Criteria	Maximum Possible Score	Respondent Score Range
Qualitative		
Experience and Customer Commitment	5	2.0 – 4.7
Financial Strength	5	3.2 – 4.7
Maintenance of Local Operations	5	0 – 5
Transition Plan	10	3.5 – 7.5
Employee Pension Plan Maintenance	3	1.5 – 3.0
Economic Development and Benefits to South Carolina	5	3.0 - 5
Generation Portfolio Diversification	5	0 – 3.8
Feasibility	5	1.7 – 2.5
FEMA Assistance Qualification	5	3.5 – 5
Qualitative Total	48	22 - 35

Such scoring processes are not intended to be a final statement of the quality of proposals, but rather to provide an indication of relative quality based on pre-determined criteria and standards. In such pre-determined processes, it is impossible to fully capture the differences that exist across proposals, particularly, where there is significant divergence in the proposal structures. Further, it may not be possible to fully anticipate the range of responses and identify all features affecting the scores with a pre-determined system. Scoring criteria is valuable and provides significant insight into responses but may not be definitive statements of superiority with a diverse, indicative process where uncertainty in responses does exist.

Within this process, Participants submitted a creative and diverse set of qualified proposals with many sub-features. In some cases, the evaluation process and the weightings provided do not allow for full differentiation²³. For example, average electricity rate proposals are evaluated for average decreases and stability and differences across rate classes, but other variations were not differentiated. This does not mean they are not worth differentiating, but rather they are best dealt with via the Stage III process discussed and/or through subsequent due diligence or negotiations processes where the preference of decision makers can be more fully expressed.

²³ Protocols were developed and fixed before ICF opened any proposals to ensure a fair process.

IV.3.1 Experience and Customer Commitment

This category was worth five points and encompassed six distinct topics on the Participant experience and commitment to customers. The proposals were evaluated on experience related to longevity of utility operations, nuclear operations, and focus on reliability, rate history, corporate culture, and customer relations.

Responses for full purchase varied widely in their approaches and in the level of detail available for this category. Scores for the four qualified responses varied from 2.0 to 4.7 in this category. The parties scoring highest tended to have structures in place or plans that addressed each element. Lower-scoring proposals had deficiencies such as omitting key sub-factors requested in the EOI or not having applicable information.

- ▶ *Current Experience with Nuclear Plant Operations and Licensing* – Three of the four parties identified current operations experience for the company or proposed management team. The remaining party identified prior experience but lacked current experience.
- ▶ *Longevity* – All parties scored well in being able to demonstrate much more significant than 5 years of utility operational experience. In cases where institutional investors sponsored the proposal, the management team proposed had significant years of utility experience at a single entity.
- ▶ *Customer Relations* – One of the sponsoring entities provided outstanding history in customer satisfaction surveys which were used to assess this category and received full credit. Partial credit was awarded to a second entity which provided excellent record for individuals that would be joining the management team, and to a third entity which provided an excellent record, but on a much smaller scale. The fourth response lacked sufficient comparable detail to rate it in this category.
- ▶ *Corporate Culture* – All but one party received full credit in this category based on their expressions of long-term commitment and historical operations.
- ▶ *Focus on Reliability and Disruption Minimization* – None of the responses provided full and complete statements to receive full points in this category. Several parties provided a strong emphasis on grid reliability, resiliency and modernization and received credit toward this category. One party did not provide sufficient information or detail on how it would plan to address reliability and disruption minimization and did not receive points in this category.
- ▶ *Rate History* – All but one party provided a satisfactory rate history illustrating a focus on maintaining stable customer rates. Information was not available to be able to evaluate the final party on this category.

IV.3.2 Financial Strength

In the Threshold review phase, all responses were determined to have the financial wherewithal to support their proposal. In the evaluation phase, this factor focuses more on the Participants' plans to finance the acquisition. In this context, the evaluation takes into account the:

- ▶ Approach to the overall financing
- ▶ Total sources and uses of funds for the project
- ▶ Key assumptions for debt structuring
- ▶ The expected plan for maintaining funds for nuclear decommissioning and fuel storage
- ▶ Financial protections implemented for consumer protection

The scores ranged from 3.2 to 4.7 of a total possible of 5. The EOI attracted very impressive organizations with all four participants having more than enough financial strength to implement a sale.

For this portion of the Financial Strength category (i.e. points one to three above), all parties scored the maximum point allocation. The range in results for the overall category was driven by differences in the last two of the five evaluated factors, the plan for nuclear decommissioning and fuel storage, and more importantly in terms of points, the ratepayer protections in place. Two responses clearly identified their intentions for nuclear decommissioning funding and one response implicitly adopted the Santee Cooper expected funding. The final response did not sufficiently address this aspect. In rate protections, one response received no points due to lack of clear information regarding governance protections that may be in place.

IV.3.3 Maintenance of Local Operations

Through this criteria, the Committee's preference to support continued local operations in Berkeley County and Monck's Corner was assessed. Of the four proposals qualified for evaluation, there were effectively two types of responses received: one which maintains significant headquarter operations in Monck's Corner, and one which would convert the headquarters to an operating center. The results were reflective of the nature of the sponsoring organizations – those with existing utility operations proposed to utilize synergies across their current operations which would remove duplicative positions and result in significantly less need to maintain headquarters staff, and those proposing to transition in new management but the headquarters and nearly all non-management staff. Each proposal also considered the reconfiguration or retirement of the Cross power plant in Berkeley County which would affect local jobs. All parties provided for severance, retraining, or other job placement benefits for any employee losses.

The final scores for Local Operations ranged from 0 to the maximum of 5.0, with two parties receiving the maximum, one party at 2.5, and one party at 0.

IV.3.4 Transition Plan

This category encompassed 11 distinct topics on the management, operation, and staffing of Santee Cooper post-acquisition and sought to distinguish Participants with comprehensive transition plans for utility ownership that minimize risk and upheaval to Santee Cooper internal and external stakeholders from Participants with plans that are uneven in their details or may pose greater risks to Santee Cooper and the State.

Responses varied widely in their approaches and level of detail on the transition plan topics. Scores varied widely from 3.5 to 7.5 in this category with a maximum score of 10 points. The proposals scoring highest tended to have point-by-point plans that addressed each transition plan element, including many of the human resources plan sub-factors and intended to keep the salaries and leave for Santee Cooper employees they will retain largely unchanged in at least the short term. Lower-scoring proposals had deficiencies such as omitting key sub-factors requested in the EOI or offering only a non-specific sentence to address them, or not describing clear paths to resolving implementation challenges.

Key observations from transition plan responses include:

- ▶ *Management Team* – Multiple participants have assembled or expect to draw upon executive teams who have long histories of service in the electric utility industry and several years of experience working together, whether within an affiliate of the participant firm or at an unrelated firm. Due to the anticipated complexity of transitioning utility ownership in a full acquisition of Santee Cooper, a seasoned management team with experience working together should

create transition efficiencies and reduce risks. Several parties had experience in utility merger, and/or in restructuring utilities which would also likely be beneficial in creating transition efficiencies.

- ▶ *Human Resources (HR) Plan* -- There were 10 aspects of the HR plan discussed in the EOI request. No participant clearly addressed all of them. However, two responses addressed all but one aspect, and three of the responses provided generally clear and thorough descriptions of their intended HR activities. Multiple responses noted that they intend to maintain Santee Cooper salaries at or above current levels, at least in the short run, for those staff they retain. One participant did not address several required aspects of the HR plan and also had insufficient detail across multiple aspects.
- ▶ *Environmental Impact* – This is an area where three of the four respondents provided substantially insufficient details. While respondents discussed air and other environmental improvements from transitioning Santee Cooper's generation fleet away from coal and towards natural gas and solar, the demand side did not receive much attention. Only one participant directly addressed the important environmental implications of load growth and how its energy efficiency programs can positively affect the environment. Various other environmental issues (e.g., environmental impact of T&D investments due to generation investments and resiliency hardening programs such as preservation of wetlands and coastal areas beyond Lakes Marion and Moultrie) also tended to be addressed minimally or not at all.
- ▶ *Conflict of Interest* – One of the four respondents did not provide adequate descriptions of how it planned to resolve potential conflicts it identified and, therefore, scored lower on this factor than the other respondents.
- ▶ *Strategic Plan* -- All four full acquisition respondents had solid overall strategic plans for Santee Cooper, including how to handle debt. This is an element of their transition plans, but it is also foundational to their entire proposals.

IV.3.5 Employee Pension Plan Maintenance

This criteria considered both the fulfillment of currently unfunded obligations of Santee Cooper under the State Pension program of roughly \$328 million as well as the forward-looking treatment for employees. Responses providing for equivalent coverage in both areas received a maximum of three points, while responses addressing at least one element received partial points. The scores awarded in this category ranged from 1.5 to 3 points. Of the four responses reviewed, only one assumed the full outstanding underfunded pension obligations and provided ongoing workforce benefits and received the full three points. One party provided ongoing benefits and indicated it would be willing to consider funding the underfunded pension share for Santee Cooper, though it was not included within the offer and receive 1.5 points. The remaining two parties provided for ongoing employment benefits but indicated they would not be willing to take the underfunded pension obligation. These parties offered retirement programs for employees which could potentially exceed pension benefits and received 1.5 points. Across all four responses, it was found that employees remaining with the companies would be no worse off than currently with regards to their pension benefits, and potentially better off in select cases. The greatest distinction across proposals in this category was related to the assumption of Santee Cooper's pro-rata share of the portion of the State's pension obligation which is underfunded.

IV.3.6 Economic Development and Benefits to South Carolina

Through this criteria, the Committee desired to identify responses demonstrating beneficial economic development within South Carolina and treat them favorably. The responses received were extremely varied in their approach to economic development going forward which makes direct comparisons, absent a detailed economic development study more difficult. Common across all responses was the belief that the lowered rates would provide improved incentive from the expected BAU rates of Santee Cooper. The benefits identified in several cases would be largely through infrastructure development (generation and transmission) and related job creation. In comparison to economic development activities undertaken by Santee Cooper as an agent of the State such as providing economic development grants and loans in support of job creation and attracting industry to the state, one party indicated directly that it would establish similar programs while another alluded to such programs it has anchored in another area, while not providing specific commitments. Economic development also considered the implications to local communities versus the in lieu of tax payments made by Santee Cooper now. The estimates of payments replacing the in lieu of taxes varied widely and were difficult to fully validate; however, all parties maintained payments that would be at least equivalent to Santee Cooper. The main variation here was related to the level of property taxes that would be generated under the alternate development proposals.

The scores for economic development ranged from 3 to 5 of a maximum of 5 points with one party receiving a 3, one party at 4 and two parties at 5. The parties with the higher scores tended to be able to provide more details and supporting evidence on their approach to development.

IV.3.7 Generation Portfolio Diversification

This criterion assesses responses on their projected generation mix changes compared to the status quo. ICF evaluated the responses on two factors- (i) environmental benefits including air, water and, land, and (ii) reduction in financial risk to Santee Cooper end-use customers achieved through diversification.

The scores received by the parties for this criterion ranged from 0 to 3.8 of the maximum of 5 points. The forward generation plans for the parties varied significantly, through three of the four responses recognized potential gain in cost reductions and environmental benefits from retiring coal. The fourth response largely maintained the status quo of the Santee Cooper generation fleet ²⁴24,000 MW. Of the three, one response provided a very detailed plan to phase out coals generation and replace with in-state natural gas and renewable (largely solar). This response provided the most significant resource and environmental benefits and received 3.8 points. The second response took a considerably different approach to generation supply while shifting from coal to cleaner natural gas resources, and the response also contemplates the removal of V.C. Summer 1 from the generation supply mix and is not definitive regarding the use of renewables. This proposal, however, did provide significant diversification and financial risk reduction strategies were described and scored a 2.5. The third proposal provided for some movement away from coal and considered alternate resources for replacement, scoring a 1.3.

The two parties receiving the lowest scores in this category did further indicate a strong need for a fresh IRP process going forward to better align the region's requirements with the available resource options. Both parties also described a strong rationale for the IRP analysis and provided steps they

²⁴ The party sponsoring the fourth proposal also recognized similar benefits in their secondary proposal for Generation Modernization discussed earlier, however, this secondary proposal is not considered herein.

would utilize which verified a strong understanding. Should these parties conduct further IRP like review, their expected plans result in scoring differences to this criterion.

IV.3.8 Feasibility

The assessment of feasibility addressed issues such as whether needed agreements were already in place (or other initial agreements such as memorandum of understanding, letters of support, oral commitments), whether the changes and conditions precedent required to implement were reasonable, and whether the cost estimates were reasonable. Two parties received 1.7 points and two parties received 2.5 points out of a maximum of five. None were provided the maximum score because, significant progress notwithstanding, none fully resolved the challenging issues associated with the Central Coordination Agreement. While the impact to the Central Coordination Agreement was a significant factor, the proposals also provided positive indications of feasibility in other areas such as the ability to lower rates below the BAU levels. Further, three of the proposals relied on existing regulatory institutions while one followed a governance protocol. Parties with the higher scores tended to provide a clearer approach to address potential feasibility issues, evidence of more prior due diligence on such matters, or to generally have fewer feasibility concerns. Overall, the proposals appeared to provide positive benefits, in particular, with three of the four removing the regulatory asset from rate base, and the fourth offering other unique characteristics.

IV.3.9 FEMA Assistance Qualification

Full qualification for FEMA assistance, as Santee Cooper currently has, was considered as a positive factor by the Committee. Of the four alternatives evaluated, only one provided for full FEMA qualification and received 5 of 5 points. The remaining parties provided for adequate financial mechanisms to cover emergency situations and identified consumer protections from rate volatility for such and were awarded 3.5 of 5 points.

IV.4 Quantitative Criteria

Two quantitative criteria were evaluated: price and rates. Rates were given a maximum score of 32 points and price was given a maximum score of 20 points for a total possible quantitative score of 52. The range of respondent scores was 20 to 34. Exhibit 8 shows the range of scores received from parties.

Exhibit 8: Quantitative Criteria Scoring

Evaluative Criteria	Maximum Possible Score	Respondent Score Range
Quantitative		
Rates	32	10 - 29
Price	20	5 - 20
Quantitative Total	52	20 - 34

IV.4.1 Price

As discussed, above, the four full purchase proposals had prices at or above the full costs of providing for debt defeasance.²⁵ Based on the provisions included in the four responses, ICF estimates the range of prices at between \$7.9 and \$9.2 billion, assuming a transaction close at the end of 2019.²⁶

One acquisition proposal was not inclusive of the water utility or the hydro-electric assets. No adjustments were made to accommodate for this difference. The off-takers of the water utility have indicated interest in owning and operating these assets in the event of a sale of Santee Cooper, which may reflect incremental value available to the State over and above the offer. Similarly, there is value in the hydroelectric assets and associated lake systems. However, it is unclear if incremental value would accrue to the State. No adjustments were made to price estimated by ICF for this party to account for the assets which were not included.

The scores on estimated price associated with these four proposals ranged from 5 to 20. The protocol established before the responses were received set 5 as the minimum associated with providing for defeasance and 20 as the maximum score awarded to the proposal with the highest price. This explains the scoring outcome as three of the proposals are effectively at the minimum defeasance and only one exceeds defeasance. While this is a reasonable approach, reasonable people could employ an alternative scoring system that maintains the ordinal (i.e. relative) relationship, but not the cardinal relationship.²⁷ Differences in scores should be considered, but it is important to understand that the difference presented in this price category is at least in part reflective of the limitations of the algorithm applied. It is also important to consider that utilizing this same algorithm should additional rounds of bidding to be held, may provide an incentive to increase price if participants are aware of the algorithm in advance.

IV.4.2 Rates

Rates were scored in three areas: (i) expected rate stability; (ii) expected rate class structure; and (iii) levelized NPV (“annuity”)²⁸ of the proposed rates relative to the BAU levels.

The combined scoring for the respondents for all three areas ranged from 10 to 29, relative to a maximum of 32 possible points. The highest score (i.e., the largest decrease in rates relative to the BAU case) is primarily associated with reliance on out-of-state existing gas-fired generation which provides the most significant generation cost savings relative to Santee Cooper expectations. Other proposals relied on construction of new generation in state, made no changes, or were not as specific.

Participants were asked to provide their proposed rates on an annual basis for a 20-year period. In order to analyze these proposals on a comparable basis, ICF determined the annuity rate of the long-term proposed rates assuming the same discount rate across all. Participants. The same annuity was determined for the expected BAU rates as calculated by ICF. Similarly, annuity levels were determined

²⁵ One of the four does not fully pay-off the debt, but rather assumes it.

²⁶ The estimated ICF price is based on ICF’s review and determination regardless of the funding sources included in individual offers. In one case, ICF estimated the price by accounting for credits against state liabilities other than Santee Cooper debt. Additional discussion would violate confidentiality.

²⁷ That is, the best score would still be best, but the point difference might be different. For example, a system based on the ratio of the price to the mid-point of ICF’s assessed value with maximum points being provided for equaling the assessed value would have compressed the highest score in this sub-category of rates from 20 to 12 points.

²⁸ The annuity or levelized rate has the same cumulative impact as the present value. This is because all are measured of the same period. Thus, the relationship between proposals is the same whether using annuity or present value but annuity facilitates discussion because it is expressed in \$/MWh (which equals cents per kWh).

for the 5-year proposed rates and the 10-year proposed rates. These values were used to determine scores in two of the three subcategories.

- ▶ *Expected Rate Stability* - The annuity levels for 5-year, 10-year, and 20-year rates were assessed to determine if the rate of increase across these time periods remained within expectations of inflation. To the extent that responses were consistently under inflation across periods, the responses were found to be stable. In all cases, the proposals were awarded the maximum of 4 points.
- ▶ *Expected Rate Class Structure* - None of the rates compressed the difference between end-user rates and average wholesale rates (e.g., lowered the premium of residential rates over wholesale average rates relative to the BAU, none received the maximum of 6 points. All scored 3 points for maintaining the premium of end user rates over wholesale rates at BAU levels.
- ▶ *Levelized NPV ("annuity") of the Proposed Rates relative to the BAU levels* - When estimated over 20 years, the levelized average or annuity electricity rate range was between 2% to 14% lower when compared to the ICF's BAU case. As a result, all four responses were found to offer rates below the BAU rate. In our review, the underlying costs driving the rates were examined to determine the general causes for the rate decrease relative to the BAU. In three proposals, the rate levels were affected by the 100% write-off of Summer 2 and 3 costs. We additionally conducted a high-level review of whether the various cost reductions were reasonable given commodity price forecasts used by Santee Cooper, and subject to additional verification of transmission and other assumptions regarding new sources of generation. We found that the changes were internally consistent where the proposals lowered operating costs, especially fuel and non-fuel O&M, and increased capital costs. For example, we found the average operating expense (fuel, non-fuel O&M, and purchased power) decrease was 14% on a present value basis across the four proposals or an approximately 9% total average revenue requirement reduction. Most of the average decrease in operating expenses is due to fuel cost reductions 12 percent below BAU rates and O&M reductions at almost 19 percent below the BAU level. There was less savings in purchased power costs at an average of 9 percent below the BAU level. There was an increase in other costs (capital related including taxes) of 3% of the BAU level which results in a 6% overall decrease on average (i.e. $-9 + 3 = -6\%$).

IV.5 Third Stage Scoring Modifications

As discussed in the methodology, an optional third stage was available to address unexpected features identified in the review process that could materially alter the scoring. Two such factors were identified for adjustment under Stage III: (i) an error in the assumptions used in rate determination for one party, and (ii) three of four proposals had beneficial payments available to the State not accounted for elsewhere.

IV.5.1 Error in Assumptions used for Rate Estimation

One party of four (Party K) accepted the current estimated share of the State's unfunded pension obligation, equal to \$328 million. This party explicitly identified that it would require rate recovery for such expenses and indicated that this was accomplished through assuming the O&M budget contained within the BAU model and Santee Coopers most recent forecasted budget. However, the model and budget include only expenses for the current pension obligation, not the unfunded portion,

as such the assumption made by Party K resulted in rates which would be lower than expected should the liability be assumed with adequate funding levels. Had this adjustment been made directly to the rates, the party's score would have been reduced by 3 points. However, given the complex nature of the unfunded pension obligation, the potential for the level of underfunding to fluctuate, the uncertainty in the requirement to pay down such an obligation, and the uncertainty in timing to pay down such an obligation, the Evaluation Team determined the full reduction may be overstating the required funding and rate implication. As the certainty of these matters cannot be known at this time rather than remove the full three points, only 1.5 points were removed. Furthermore, Party K was credited with the \$328 million assumption in its estimated price.

IV.5.2 Beneficial Payments to State

While the economic development category factors in several elements related to the forward benefits to the State, upon review of benefits available through the responses, ICF determined that this category was not sufficient to comprehensively account for the significant benefits which may accrue due to incremental payments to the State or entities within the State through items such as franchise taxes, corporate income taxes, and property taxes which would be assessed under the IOU structure. Three of the four proposals estimated total payments well in excess of the current payments made by Santee Cooper and receive scoring adjustments of +1 to +2 points. At this time, not all tax and franchise fee benefits could be verified and led to a conservative adjustment, it is possible that the benefits could be considerable and could be greater.

The adjustments are shown in Exhibit 9.

Exhibit 9: Third Stage Scoring Adjustments

Evaluative Criteria	Respondent Score Range
Stage III	-1.5 - +2.0

IV.6 Overall Scoring Results

The overall scoring of the results across the four full purchase proposals is summarized in Exhibit 10.

Exhibit 10: Full Purchase Proposal Scoring Results

	Qualitative Total	Quantitative Total	Stage III	Total ²⁹
Party C	35	34	1	70
Party F	22	20	1	43
Party G	34	25	2	61
Party K	28	30	-1.5	56
Maximum Score	35	34	2	70
Total Possible Score	48	52	NA	100

The range of points received was 43 to 70 out of a maximum of 100 points. This scoring was determined by ICF based on the methodology discussed above. While the range of results is significant, ICF places special emphasis on ordinal relationships, and somewhat less on cardinal relationships. This is in part because of reasonable alternatives to the exact details of the scoring methodology. In addition, there are significant uncertainties about the cost estimation that require additional analysis that could not be conducted within the context of the EOI due to limited time,³⁰ and because the offers are non-binding and indicative and hence cannot be guaranteed. With 70 points, one party shows the strongest scores in both the qualitative and quantitative categories. In the middle, two other parties are close to each other at 61 and 56 points but showing strength in opposite categories, that is one is strong in quantitative but weaker in qualitative and vice versa. The fourth party at 43 points is similarly positioned in both categories.

The party with the highest score had the greatest average rate reduction. This is consistent with customer rate impacts being the evaluative criteria with the greatest importance at 32 points (compared to 20 points for the next highest criteria). Put another way, the scoring system incentivizes transfer of economic value to customers from the price potential of Santee Cooper.

The party with the lowest rates achieves these reductions through replacement of existing generation with power obtained from existing independent power producers located primarily out of state. However, one of the most complex technical issues in the electric power industry is the availability and cost of transmission to access distant power supply. Thus, while ICF's high level analysis indicates that significant savings potential exists, ICF recommends that further investigation be undertaken on the feasibility and costs.

²⁹ Individual numbers may not sum to the total due to rounding

³⁰ The issue is not one of having a few more days or even weeks, but in some cases, a process akin to a detailed IRP analysis would be required to fully assess some of the issues and or guarantees. In particular, parties not experienced in the complexities of standard electricity transmission analysis and contracting are generally surprised at the lead time for more definitive assessments of transmission issues especially in cases where there are local weaknesses in the grid, and upgrades need to be investigated.

Additionally, in order to achieve these savings, the Central contract opt out provisions need to be addressed. If these generation savings options exist, the key question is whether investments and commitments needed can be made if Central opts out and pursues the opportunities on their own, leaving Santee Cooper fixed costs potentially to be allocated to a diminished base of customers. Moreover, the existence of these options may reflect in part the opt-out problem, and to the extent it is resolvable, a stand-alone Santee Cooper might be able to achieve them if the opt-out provision were addressed.

Conversely, the entity with the lowest score has a different estimate of the potential magnitude of the savings and the challenges facing the local power grid, and a different focus, namely if it were to pursue new generation ownership, it would pursue construction of new local generation and/or investigate via an IRP. Further, on qualitative factors, this party provided limited detail in some cases on how it would transition to a new IOU entity and resolve implementation challenges; in the case of these areas, however, it showed itself as highly qualified to face such challenges and well experienced in doing so such that with incremental review, resolutions may have been offered. However, this party also had a significant impact on the local area, particularly due to job loss, which further reduced its qualitative scoring.

While ICF recognizes that there is room for reasonable people to disagree about the weights and details regarding the scoring, ICF concludes that all four proposals are reasonable starting points for negotiation should the Committee and General Assembly elect to proceed with a sales path.

V Summary of Other Responses Received

ICF received eight responses that did not involve the full purchase of Santee Cooper, from seven parties.³¹ These eight proposals were creative and varied widely in their approaches. Though they do not fit neatly into transaction types, these eight proposals can be approximately categorized as: two partial acquisitions (one for transmission and distribution, and one for generation); five long-term management and operations arrangements or long-term purchase power agreements; and one hybrid approach to management and ownership.

In most cases, the proposals are from organizations that are highly capable financially and very qualified technically and operationally. This overall quality of respondents across the board reinforces the finding that in spite of the challenges associated with Santee Cooper (e.g., outstanding litigation, reliance on a complex wholesale contract, complications from Summer 2 and 3 abandonment), there is very significant market interest in Santee Cooper.

As discussed in the EOI process letter, ICF's review of the eight other proposals was not as detailed as it was for the full purchase options. Nonetheless, there are general themes and issues among these eight proposals that warrant highlighting including:

- ▶ *Advantages Claimed* – Most proposals outline several common themes of advantages though not all were claimed in all cases. These include; (i) retaining the underlying benefits of the public power model such as primarily tax-exempt low-cost debt and avoiding the need to inject equity at higher costs into financing; put another way, not forfeiting financial advantages of state-owned, Santee Cooper capital structure; (ii) avoiding a substantial cost of early debt payment (defeasance) penalties; (iii) obtaining the scale of private enterprise and synergistic benefits via expanding management, procurement, and dispatch platforms; (iv) improving reliability and resiliency with access to larger systems; (v) allowing for new ideas, new thinking, new standards; (vi) achieving quicker implementation and cost savings; and (vii) improving alignment of incentives between manager/operator and customers in some cases. Some participants highlighted the value of flexibility in pursuing alternative options as a sale is irrevocable while alternate structures are not.
- ▶ *Potential Savings* – The alternate proposals have similar focus on generation cost savings as the full purchase proposals. They anticipate and project cost savings derived from a combination of efficiency savings (overhead, O&M, fuel, capital) with the largest source of savings being from increased use of gas generation and decreased coal generation; retirements; modernization and diversification; and access to a broader set of generation resources. Some proposals are from companies owning generation (including IPP resources) in the southeast and are offering power supply from these assets, raising both the potential for more savings as well as greater transmission challenges. In some cases, proposals require cost minimization, and when the proposal is made by a company owning generation, there is a need to manage potential conflict of interest issues. Cost savings estimates range up to approximately \$250 million annually, with some proposals estimating close to \$2 billion of savings on a net present value. The cost savings are primarily used to decrease rates and/or debt. Secondly, savings are used to pay for the management services including via management fees bonuses based on the amount of savings.

³¹ ICF additionally received one full acquisition proposal that did not meet the threshold criteria for that category of proposal and is summarized in this section of the report.

- ▶ *Proposal Structures* – As noted earlier, these proposals are diverse and creative. They have varying structures ranging from all requirements power supply contracts with fixed \$/MWh prices subject to escalation to management contracts with annual fixed fees and some with incentive components; to management contracts with pass-through of costs and fees based on cost reductions; and partial ownership by new entities to manage and operate assets. A couple proposals offer upfront cash payment for fees and/or investment. The duration of these arrangements ranges from 15 to 30 years, where specific durations were provided.
- ▶ *Management and Employees* – Introduction of new management was contemplated in many proposals, and effects on Santee Cooper employees varied widely. Some proposals were silent on this matter, while several others plan to retain the vast majority of utility personnel. Some are explicit over discretion of headcount.
- ▶ *Generation Supply* – These proposals have similar focus on generation cost savings as the full purchase proposals. Many incorporate retirement of coal and new build of gas combined cycle power plants predominantly, but also incorporate renewables, DSM, co-firing, storage and other technological innovations. Some proposals envision incremental capital expenditure up to \$2 billion. Several contemplate utilizing existing (largely gas) assets as more efficient source of power, including from their own existing power plants. This could facilitate more significant savings than reliance on new construction. As with the purchase proposals, these proposals require more detailed review and analysis and may have unresolved issues related to the costs including especially transmission costs.
- ▶ *Central Coordination Agreement* – Some proposals claim that the termination option in the Central Coordination Agreement is not triggered, and this appears in some cases to be a potentially significant advantage relative to full purchase proposals. Put another way, as long as the Santee Cooper Board maintains decision making and rate setting authority, this appears to be a correct and advantageous aspect of these proposals. However, the rationale and support for this claim was often lacking. Some proposals indicate no need for modification to Central Coordination Agreement's opt-out provision, but rather indicate there is a need to engage Central and receive greater input and approval from Central in review and planning. This may not be true and is particularly a problem for those proposals with large cost savings potential. Thus, the majority of these proposals, but one, may have similar unresolved implementation issues with respect to the opt-out features of the Central Coordination Agreement as the full purchase proposals.
- ▶ *Partial Acquisition Options* -- A purchase of the generation assets alone was proposed that came close to full defeasance of the debt and may be attractive. However, it was predicated on Santee Cooper maintaining the transmission and distribution system and securing the Central contract continuation and elimination of opt-out provisions. An additional proposal is for acquisition of Santee Cooper's transmission and distribution (but not generation) assets, with a recommendation for engagement of an independent asset manager to manage and optimize the generation assets for an interim period, and allowance for potential future sale of generation. ICF recommends additional investigation, including consulting with legal experts, before considering a sale of Santee Cooper's transmission assets alone because of the potential for unintended consequences, including a diminution in the value of remaining generation and potential impairment of Santee Cooper's negotiation leverage with counterparties.
- ▶ *Bond Covenants* – By purchasing selected assets rather than the entire set of assets, some proposals may violate bond covenants and require payoff of the entire debt. While one party claims it can purchase a major class of assets without violating bond covenants and paying off the entire debt, this would require a careful review by bond counsel.

VI Conclusions and Next Steps

VI.1 Key Conclusions

Below are key takeaways from ICF's review:

- ▶ *Strong Market Interest* – A total of 10 distinct parties submitted 15 proposals. Most parties were shown to be technical and financially capable of managing large utility assets and most possess southeastern US power market experience.
- ▶ *Diversity of Options* – ICF received a wide range of proposal types (full acquisition, partial acquisition, and alternative management) and approaches to enhancing utility outcomes within each type of proposal, offering many creative ways to achieve key objectives including cost savings and customer rate relief.
- ▶ *Beneficial Rates at Reasonable Prices* – Three critical economic objectives were met among the four full acquisition proposers (passing threshold criteria): (i) all offered purchase prices that fully pay off or provide for defeasance of Santee Cooper's debt, (ii) all project decreases in customer rates relative to ICF's BAU rates, and (iii) three of the four make no request to recover the costs of the abandoned Summer 2 and 3 nuclear power plants.
- ▶ *Significant, but Not Complete Progress towards Potential Implementation of a Sale* – The overall effort to address concerns of Central was advanced by the EOI process, as several potential barriers (e.g., availability of customer rate reductions and the write-off of Summer 2 and 3 costs) were reduced. However, no full purchase proposals met both the full defeasance of debt threshold and fully resolved the potential challenges with the termination and "opt-out" provisions in the Central Agreement.
- ▶ *Tradeoffs between Local Impacts and Customer Benefits will Exist* – All full acquisition proposers approached local economic development seriously, but they often differed in their utility headquarters, overall staffing level, and other economic development plans. When reviewing these plans, it is important to weigh possible tradeoffs between customer electricity rates and impacts to various stakeholders in the State.
- ▶ *Significant Generation Cost Savings Potential* – There was a consistent view among most Participants, based on their review of data room materials in relation to their industry experience and operational metrics, that sizable cost savings can be achieved within Santee Cooper's generation portfolio and, further, that the largest source of those possible savings are the substitution of natural gas generation for coal generation.
- ▶ *Further Review and Due Diligence* – EOI responses pointed to areas where the great variation in Participant approaches and the complexity of underlying issues warrant special attention during further review and due diligence of offers: of the timing, location, and extent of generation retirements and new investments; transmission service availability and upgrades; distribution system hardening; management priorities in day-to-day utility operations; the location of staff; in-state taxes and other payments; and relationships to regulatory bodies.

VI.2 Next Steps

Possible next steps for the Committee's consideration are discussed below. The intent is not to address the full range of possible next steps but to provide ideas for consideration related to our current scope.

VI.2.1 Considerations in the Event of a Decision to Sell

Though the four full acquisition Participants earned widely varying scores (from 43 to 70) on this EOI, we advise that the State, should it determine it is in its best interest to move forward with a sale, engage in follow-up discussions with all four Participants. This is because:

- all four represent promising approaches from organizations with the credibility to function as owners of a utility of Santee Cooper's size and complexity;
- by engaging with all participants, at least initially, the State stands the best chance to identify and move forward with a transaction structure that draws from the best elements of the varying approaches (i.e. purchase price; customer rates; general and T&D investment plans; treatment of existing staff, pensions, and Moncks Corner; etc.)
- the indicative nature of EOI pricing means that the State may achieve somewhat different economic outcomes in the future when proposals become final and executable than what ICF calculated strictly on EOI protocols. Abandoning a participant at this stage risks moving a potentially attractive offer off the table before negotiations have begun.
- there are important differences between the proposals that cannot be discussed in this report without violating confidentiality.
- the four entities differ in their characteristics and approaches to Santee Cooper ownership and operations in ways that make selecting among the four difficult at this stage. Such selections require judgments that are best made with direct input from the ultimate decision makers at the State, as informed by additional stakeholders and due diligence;
- there are only four entities, and hence, multi-party negotiations are more feasible than if the number was larger.

VI.2.1.1 Potential Negotiations

For the State's possible follow-up discussions, this EOI evaluation points to the Participant with the best overall offer at this stage and, therefore, the shortest distance to a successful outcome for the State. As noted above, however, the other three Participants may be able to gain enough ground on the leading participant to be selected for final negotiations and awarded a purchase contract if that is the direction chosen by the State. In working through such negotiations and narrowing the number of Participants, the State may wish to use this EOI evaluation to frame what transaction characteristics are available and unavailable, desirable and undesirable, in its review and negotiations.

Further, because the proposals are indicative and non-binding, guaranteed rate reductions or other finalized terms and conditions could not be obtained. Assuming there is a decision to go forward with a sale, the following steps should be considered:

- Additional negotiations with Central and or other resolution of the implementation issues
- Additional negotiations with the Participants to better define and/or improve the terms offered in their EOIs.
- Regardless of how many parties to include in negotiation, consideration should be given to:

- Choice of One Bid to act as the final winner or “Stalking Horse” - ICF recommends that an evaluation structure similar to that used here, with perhaps changes to criteria or weighting, be used to facilitate the final negotiations and comparison of options, and to provide adequate justification and documentation for the choice of one winner or stalking horse.
- Possible Topping Round – ICF recommends consideration of a brief (one week or less) topping round in which only one or two parameters can be changed (e.g., purchase price, customer rate reduction, near-term utility job losses), only prequalified entities can participate, and if no better bid is available, the stalking horse bid is the winner. This would provide additional market evidence that the best possible bid was achieved. The disadvantage of this strategy is that parties may be reluctant to be the stalking horse. In other similar sales situations, in the event the stalking horse is not ultimately chosen, a payment (“breakup fee”) is made to the stalking horse to encourage parties to be the stalking horse.

VI.2.2 Considerations in the Event of a Decision to Pursue Other Options

As noted earlier, ICF’s detailed evaluation reviews were concentrated on full acquisition proposals. As the Committee continues to identify the best options for Santee Cooper, further detailed review and possible scoring of partial acquisition, management, and other proposals received may be appropriate. Much of the additional diligence review and analysis suggested for the full purchase proposals may also be similarly applicable to the non-purchase proposals. If a decision is made to proceed further with these other proposals, many of the negotiation related recommendations may also apply.